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to: **Lesley Cummings**

date: **November 17, 2009**

from: **Sandi Hunt & Pete Davidson**

subject: **MRMIP Enrollment
Recommendation**

As requested, we have updated our analysis of the Major Risk Medical Insurance Program (MRMIP) revenues, expenses, and enrollment for calendar year 2010. Our recommendation is to maintain the MRMIP enrollment target at 7,100. In developing the recommendation, we relied upon enrollment, premium, and claims data files and other information provided by Managed Risk Medical Insurance Board (MRMIB) and participating health plan staff. Our analysis was supported by continuing efforts by MRMIB and health plan staff to clean up and validate the underlying data; however issues with timeliness and accuracy of reported claims data, in particular data for the Guaranteed Issue Pilot Program (GIP), continue to complicate the development of accurate projections.

MRMIP and GIP share a single funding amount. Thus, the number of individuals that can be covered under MRMIP is dependent on the funding remaining after the State pays its share of GIP costs. Financing of MRMIP and GIP is essentially on a pay-as-you-go basis, with annual appropriations and a stated goal of achieving a fund balance as close to zero as possible, without going negative, on June 30 of each fiscal year. Strict conformity with this goal would result in wide fluctuations in MRMIP enrollment targets from year-to-year, so we generally model fund balances over multiple years to smooth results. Pay-as-you-go financing is particularly challenging for MRMIP/GIP due to the settlement process under which the State's and healthplans' ultimate liabilities are determined; this process generally takes several years to complete, though MRMIB is making substantial efforts to reduce this timeframe. These settlements may result in additional payments to or recoveries from the health plans in the amount of several million dollars, which directly and significantly impacts the funds available to cover MRMIP enrollees in the current period.

Projections of cash flows can be used to understand the extent to which available funds are expected to cover anticipated program expenditures during a given time period, however it does not provide information on the long-term obligations to MRMIB associated with current, past, or future enrollees. To the extent that these obligations can be reasonably estimated we recommend that reserves be established by MRMIB, which is a departure from pay-as-you-go financing. Reserves are typically established to

recognize all costs expected to be incurred during a given time period, often one year. Depending on the Board's philosophy, reserves could be established reflecting the expected net settlement liability for the next year of coverage or some portion of it; the reserves could also be built up over time or set aside immediately. The downside to establishing reserves is that those funds are no longer available to finance current and future enrollees, and the MRMIP enrollment target must be reduced to a level lower than it would be under a pay-as-you-go approach. If adequate reserves are not established and retained, MRMIB's ability to finance its existing MRMIP enrollment may be affected when the liabilities come due. However, we understand that when MRMIB has historically established reserves or maintained positive year-end fund balances in the past, these monies have been targeted and sometimes lost during the State budgeting process. Because the liabilities remain, future enrollment must then be reduced.

Several healthplan settlements, including settlements attributable to as far back as the 2003 contract year, are anticipated during fiscal years 2009-2010 and 2010-2011. For MRMIP, the most recent estimates result in recoveries due from healthplans. While we believe reasonable estimates were performed based on the available data, past experience indicates that when requests for payment are made to the healthplans the plans become motivated to clean up the data they provided, often resulting in substantial reductions in amounts owed compared to initial estimates. The development of accurate estimates of GIP settlement liabilities is confounded by the substantial delays in healthplan reporting of claims experience, premium revenue, and enrollment. For example, 2008 claims experience is only available for one of the plans. Due to the end of disenrollments from MRMIP after 36 months, no new GIP enrollees have been added since September 2007; however, we expect GIP settlement activities to be an issue for several more years barring significant legislative changes impacting GIP. In addition to outdated data, small populations lead to highly variable estimates. MRMIB has some ability to control the timing of settlement payments, so there may be opportunities to delay or speed up payments to manage year-end fund balances if necessary, which may affect results for a given year, but doesn't change the longer term cost to the program.

For the purpose of developing the enrollment target for calendar year 2010, we projected cash flows for the remainder of fiscal year 2009-2010 and for fiscal year 2010-2011. These projections were developed with the assistance of MRMIB staff, with the specific goal of understanding the timing and amount of anticipated settlements and their impact on fund balances during the period. At this time, sufficient analysis of prospective plan settlement amounts and timing has not been performed to carry cash flow projections beyond fiscal year 2010-2011, however GIP settlements (payments to plans) are expected to be \$15-\$18 million for calendar year 2008 GIP coverage, dropping to \$10-\$15 million for calendar year 2010 GIP coverage.

The following list summarizes the primary assumptions underlying the projections:

- In May 2009, we recommended and the Board approved a MRMIP enrollment target of 7,100 members for fiscal year 2009-2010.
- MRMIP enrollment as of September 2009 was 6,860 members.
- Our current estimate of the annual subsidy for MRMIP enrollees for calendar year 2010 is approximately \$2,722 per member. The attached Exhibit I summarizes the development of this figure.
- Budget appropriations
 - FY 2009-2010 appropriation for local assistance of \$32.3 million was received August 2009.
 - An appropriation for State Operations of approximately \$1.0 million was received September 2009 (State Operations is approximately 3 percent of the amount available for MRMIP/GIP).
 - FY 2010-2011 appropriation is expected to be \$32.3 million and received August 2010.
 - An additional appropriation for State Operations of approximately \$1.0 million is expected September 2010.
- MRMIP settlements
 - \$18.9 million estimated due from plans between November 2009 and January 2010.
 - \$8.7 million estimated due from plans in July and August 2010.
- GIP settlements
 - \$22.9 million estimated due to plans between November 2009 and January 2010.
 - \$18.0 million estimated due to plans between June and August 2010.
 - A placeholder value for fiscal year 2009-2010 settlements of \$12.5 million for all plans has been included in June 2011.

Based on the assumptions above, we projected monthly MRMIP fund balances through the end of fiscal year 2010-2011. We modeled various MRMIP enrollment targets with a goal of positive but not excessive fund balances at the end of fiscal years 2009-2010 and 2010-2011. We assumed that positive fund balances would be retained by MRMIB; to the extent this is not true, enrollment targets will have to be decreased. Additionally, we assumed that all available enrollment slots would be completely filled; however, over the last several months, though the enrollment target has been at 7,100 not all of those slots have been filled.

The following table summarizes the results of the cash flow projections:

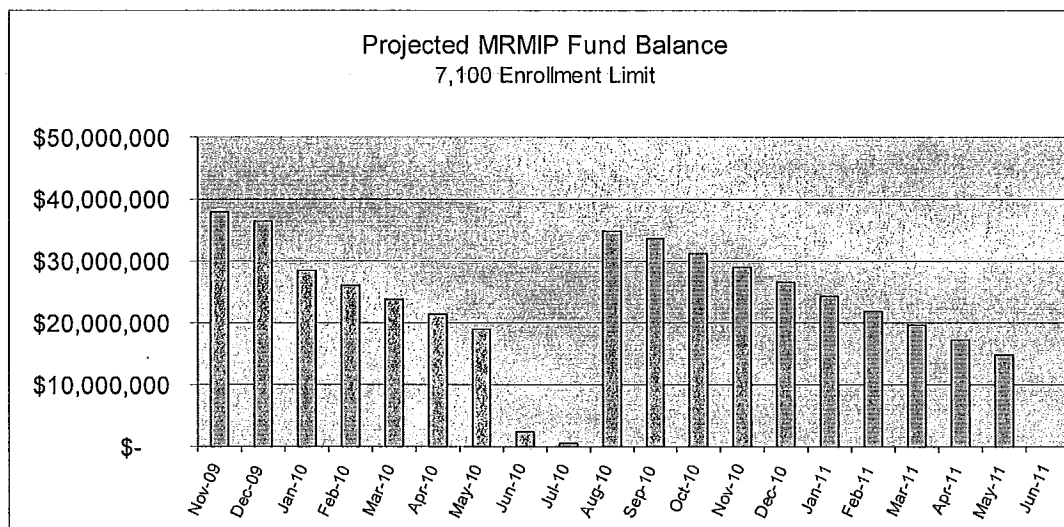
Table 1

PROJECTED MRMIP FUND BALANCE		
MRMIP Membership Target	June 30, 2010	June 30, 2011
7,100	\$2.4 million	\$0.0 million

Note that actual results could vary significantly from those displayed in Table 1 if actual timing and amount of settlements is different from that assumed.

The following chart shows the projected monthly fund balances over the projection period:

Chart 1



As a second estimate, we evaluated the number of MRMIP enrollees that could be covered during calendar year 2010 on an accrual basis. The results of that analysis are shown below:

Calendar year 2010 appropriations	\$33,387,281
less Estimated GIP settlements attributable to CY 2010 enrollment	<u>\$12,500,000</u>
Funds available for MRMIP enrollees	\$20,887,281
divided by estimated 2010 MRMIP subsidy per person	<u>\$2,722</u>
Estimated number of MRMIP enrollees covered by available funding	7,673

We believe it is appropriate to consider both the cash and accrual estimates in reaching a conclusion regarding the recommended enrollment limit. Though on an accrual basis it appears there is sufficient funding available to increase the current enrollment limit, GIP settlement payments for past coverage periods that are anticipated during the analysis period effectively reduce the number of individuals that can be covered without causing negative fund balances. Therefore, at the current time we recommend that the enrollment target remain at 7,100.

We applied best estimates in developing these projections, but the uncertainties associated with the program lead to a wide range in projected fund balances. This suggests a conservative approach (e.g., establishing at least partial reserves or maintaining lower MRMIP enrollment) or an active (i.e., frequent re-evaluation) approach to selecting enrollment targets is appropriate until the settlement liabilities and receivables are known with more certainty. We are currently taking an active approach (by re-evaluating caseload, expenditures and projections twice a year).

**California Major Risk Medical Insurance Program
Projection of Calendar Year 2010 Average Costs**

Exhibit 1

1. Summary of expected state costs

Average base period claim costs per person per year	\$8,212
Trend adjustment from base period to projection period	1.203
Projected claim costs per person per year	\$9,882
Benefit factor	0.965
Adjusted Claims costs	\$9,536
Average plan admin cost per person per year	\$271
Total cost per person per year for the projection period	\$9,807
Current average premium -- all plans	\$6,428
Adjustment to average expected premium level for Jan 2010 - Dec 2010	10.2%
Average expected premium January 2010 - December 2010	\$7,085
Benefit factor	1.000
Adjusted Premium	\$7,085
Average state subsidy for current enrollees	\$2,722
Base period loss ratio	142%
Projected loss ratio	135%